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ABSTRACT

This testimony examines the role that affordable child care plays in helping unemployed mothers enter and remain in the workforce, focusing on how current federal programs create service gaps for low-income mothers attempting to work. These are issues needing consideration as consolidation of these programs is weighed as a means of closing these gaps. It describes four child care programs for low-income families created between 1988 and 1990 (Family Support Act, Transitional Child Care, At-Risk Child Care, and Child Care and Development Block Grant programs) and provides examples of gaps in child care services that may affect program participants' ability to seek employment or continue working. The testimony recommends that in considering the consolidation of these programs, trade-offs need to be weighed between state flexibility to determine whom to serve with subsidies and congressional interest in accountability for how federal money is spent and for positive program outcomes. A list of 18 related GAO publications is included. (MDM)

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Testimony

Before the Subcommittee on Early Childhood, Youth and Families, Committee on Economic and Educational Opportunities
House of Representatives

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CHILD CARE

Narrow Subsidy Programs Create Problems for Mothers Trying to Work

Statement of Jane L. Ross, Director,
Income Security Issues
Health, Education, and Human Services Division

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PS 023104

GAO/T-HEHS-95-69

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss our work on the delivery of federal child care subsidies to low-income families.[1]

Child care costs are a significant portion of most low-income working families' budgets. They consumed as much as 27 percent of monthly income for families with incomes below poverty level who paid for child care in 1991, compared with 7 percent for families with incomes above poverty. Because most mothers need child care while they work, their decision to work depends, at least in part, on how much money they will have left after they pay for child care. Economic theory suggests that reducing mothers' child care costs will increase their probability of working. Our own recent analysis shows that subsidizing child care costs could have a dramatic effect, particularly on the employment of low-income mothers. More specifically, our work predicts that providing a full subsidy to mothers who pay for child care could increase the proportion of poor mothers who work from 29 to 44 percent.[2]

Recognizing the importance of supporting low-income families in their attempts to become or to remain economically self-sufficient through employment, you asked us to address the role that affordable child care plays in helping unemployed mothers enter and remain in the work force. Today, I will focus my discussion on (1) how current federal programs create service gaps for low-income mothers attempting to work and (2) issues needing consideration as consolidation of the programs is weighed as a means of closing those gaps.

In summary, we found that the categorical nature of child care subsidy programs creates service gaps that diminish the likelihood that low-income mothers will work. The fragmented nature of the child care funding streams, with entitlements to some client categories, time limits on others, and activity limits on still others, produces unintended gaps in services, which limit the ability of low-income families to achieve self-sufficiency. Moreover, as states deplete funds for welfare recipients, we found that they turn to funds originally targeted for the child care needs of the working poor, putting them at greater risk of welfare dependency.

In considering consolidation of these programs as a remedy for the service gaps that trouble mothers, child care providers, and program administrators alike, some important issues need

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[1]Child Care: Working Poor and Welfare Recipients Face Service Gaps (GAO/HEHS-94-87, May 13, 1994).

[2]Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work (GAO/HEHS-95-20, Dec. 30, 1994).

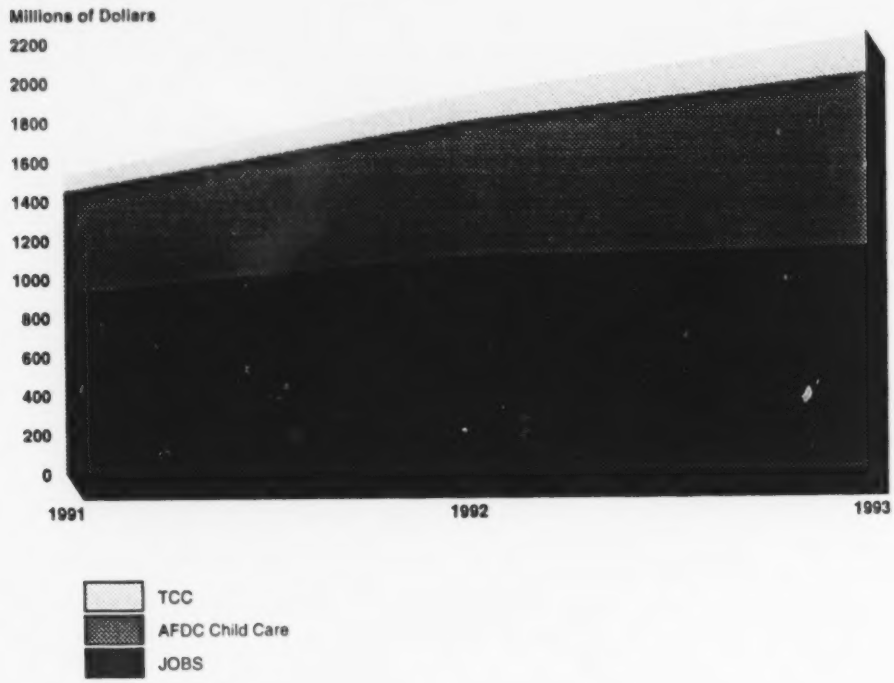
deliberation. For example, trade-offs need to be weighed between state flexibility to determine whom to serve with subsidies and congressional interest in accountability for how federal money is spent and for positive program outcomes.

Our findings are drawn from studies we conducted over the past several years on the delivery of child care programs, as well as ongoing work. In particular, to study how well the four major child care subsidy programs are working together, we visited and studied their operations in depth in six states with large welfare caseloads--California, Illinois, Massachusetts, Michigan, New York, and Texas. See appendix I for a list of related GAO products.

BACKGROUND

Between 1988 and 1990 the Congress created four child care programs for low-income families, and in fiscal year 1994 nearly $2 billion in federal funds was made available for these programs. By including child care in the Family Support Act of 1988 (FSA), the Congress acknowledged the importance of child care to helping welfare recipients obtain employment, leave welfare, and stay employed. Thus, FSA requires states to guarantee child care to employed recipients of Aid to Families With Dependent Children (AFDC) and to participants in the Job Opportunities and Basic Skills Training (JOBS) program as well as other AFDC recipients in state-approved education and training. In addition, FSA requires states to guarantee a year of Transitional Child Care (TCC) to AFDC recipients after they leave the welfare rolls as a result of increased earnings from employment. Attesting to the critical role these child care subsidy programs have played so far, figure 1 shows that total expenditure growth for those programs has far outstripped growth in the JOBS program itself.

Figure 1: Total Federal and State Expenditures for JOBS, AFDC Child Care, and TCC (Fiscal Years 1991-93)



A third program, the At-Risk Child Care program, was created in 1990 in recognition of the importance of providing child care subsidies to working poor families. This program is reserved for working families not currently receiving AFDC who would be at risk of becoming eligible for AFDC without such subsidies. Finally, the Child Care and Development Block Grant of 1990 was designed to provide direct support to low-income working families. Three of the four programs, all but the Block Grant, require states to appropriate state dollars in order to claim federal matching funds.

CURRENT PROGRAMS CREATE SERVICE GAPS

Although our work has demonstrated that affordable child care is a decisive factor in encouraging low-income mothers to seek and keep jobs, the existing child care subsidy system has problems. We found in our visits to six states that the different federal program requirements of the four federal child care subsidy programs, coupled with resource constraints in the states, produce gaps in the delivery of child care subsidies to the low-income population. Specific service gaps we identified stemmed from program differences in (1) categories of clients who can be served,

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(2) limits on employment-related activities, (3) limits on income eligibility, and (4) time limits on child care subsidies.

Gaps Result From Categorical Eligibility

Despite similarities in characteristics among low-income families, whether on or off welfare, the patchwork of child care funding makes fine distinctions among categories of families. The current system of child care guarantees subsidies to AFDC recipients participating in employment or state-approved education and training activities as well as to employed former AFDC recipients, but not to working poor families outside the AFDC system. Yet, a welfare recipient's economic status may differ little from a low-income, working nonwelfare recipient's. In fact, some welfare recipients work but do not earn enough to make them ineligible for welfare, and welfare recipients may cycle on and off assistance a number of times before leaving welfare permanently.

Moreover, the categorical nature of the child care programs does not recognize that disruptions in important services such as child care can result in economically marginal families losing jobs and, if eligible, being forced to rely on welfare. Movement toward self-sufficiency tends to be sporadic, and individuals who have worked their way off welfare generally are still low income. In fact, some may be economically worse off than they were on welfare since they now face work-related expenses that can include child care. Consequently, the separate programs may be distinguishing between the same individuals at different points in their journey from welfare to economic self-sufficiency.

Gaps Result From Limits on Employment-Related Activities

Although At-Risk Child Care and TCC statutory language expressly provides for child care subsidies during employment, Department of Health and Human Services (HHS) regulations strictly interpret the statute and do not specifically allow the use of those funds to subsidize child care during a period of job search--when someone has lost a job and is looking for another one. Officials from five of the six states[1] we visited told us that these program funds cannot be used to subsidize child care during a period of job search or other break in employment unless employment is scheduled to begin. Consequently, when an employed mother becomes unemployed while her child care is being subsidized by At-Risk Child Care or TCC funds, the child care subsidy is generally lost, and the children have to be pulled out of care unless the mother or another funding source can pay the entire cost of care.

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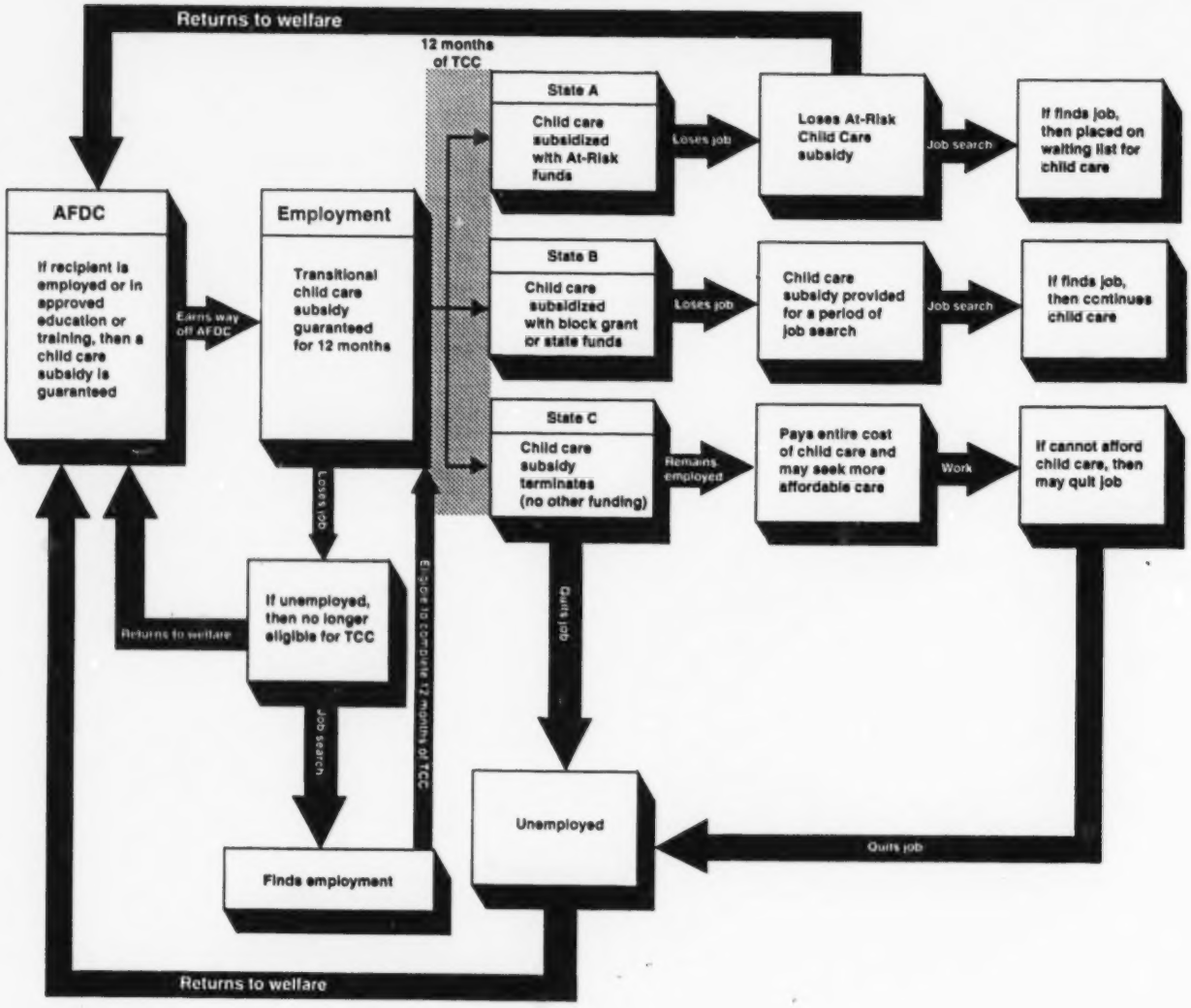
[1]The only state we visited that did not report a concern over At-Risk Child Care was Michigan, which did not plan to participate in the program until 1994.

Should a mother subsequently find employment, in many cases she will go to the end of a waiting list for subsidized child care and continue to pay the full cost of the care. Should these circumstances force the family onto welfare, the mother would be eligible again for some form of child care assistance once a job was found or the mother began to participate in employment-related activities. Figure 2 is a hypothetical flow of low-income families through the subsidized child care system and demonstrates possible outcomes of the different rules among child care programs. Note how many paths may lead a family back to welfare.

Figure 2: Hypothetical Client Flow Through Subsidized Child Care System


Returns to welfare
12 months of TCC
AFDC
If recipient is employed or in approved education or training, then a child care subsidy is guaranteed
Earns way off AFDC
Employment
Transitional child care subsidy guaranteed for 12 months
State A
Child care subsidized with At-Risk funds
Loses job
Loses At-Risk Child Care subsidy
Job search
If finds job, then placed on waiting list for child care
State B
Child care subsidized with block grant or state funds
Loses job
Child care subsidy provided for a period of job search
Job search
If finds job, then continues child care
State C
Child care subsidy terminates (no other funding)
Remains employed
Pays entire cost of child care and may seek more affordable care
Work
If cannot afford child care, then may quit job
Loses job
If unemployed, then no longer eligible for TCC
Returns to welfare
Job search
Finds employment
Eligible to complete 12 months of TCC
Quits job
Unemployed
Quits job
Returns to welfare

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Because many of their clients frequently move in and out of employment, program providers told us that using At-Risk Child Care dollars while clients are employed means that those clients will lose child care when they lose a job and begin a job search. The lack of child care makes looking for work more difficult, especially for single parents, and, program providers fear, puts low-income families at greater risk of becoming welfare recipients. In California, for example, we were told that local child care providers who were subsidizing low-income families with state funds did not want to use these funds to claim federal At-Risk Child Care money, even though it would substantially increase the funding pool available for child care. The reason: under the At-Risk Child Care program in California, clients lose their child care subsidy within 10 days of losing their job. In contrast, California's state child care program permits 60 days of child care during a job search period.

California child care program administrators and providers told us that their clients regularly move in and out of employment and that it is important to maintain the continuity of child care after they leave a job and during periods of job search. These providers prefer to serve well and consistently those clients already in their system rather than serving larger numbers of clients in a piecemeal fashion. Similarly, child care administrators in New York and Massachusetts reported that they use state funds to subsidize child care during job search periods.

Gaps Result From Limits on Income Eligibility

Other gaps result from limits on income eligibility. Because the Child Care and Development Block Grant limits eligibility to families with incomes below 75 percent of the state median income, it produces a "cliff"[1] for clients whose income rises even one dollar above this level. This cliff can produce certain work disincentives. For example, a child care worker in Michigan told us that clients reduce their hours of work as they approach the cutoff income because they believe they will not be able to pay for child care without the subsidy.

An illustration from California also demonstrates the problem of the Block Grant cutoff. The California child care program, funded exclusively with state funds, will subsidize a family up to 100 percent of the state median income, while the Block Grant subsidizes only up to 75 percent. Thus, two families in the same economic situation in California may be treated differently, depending on which funding stream subsidizes their child care.

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[1]A "cliff" exists when a small increase in income results in a large decrease in spendable income due to the abrupt termination of some benefit.

Gaps Result From Time Limits on Subsidized Child Care

TCC also presents a service delivery dilemma. At the end of the 12 months of entitlement, if a state does not have any Block Grant, At-Risk Child Care, or other funds to continue the subsidy to a client, the client must pay the entire cost of child care. This occurs even if the client's earnings have not increased during the 12 months. The result could be that the children get moved to cheaper care or that the parent quits work. Should the parent return to welfare and participate in employment or training, the family once again will be entitled to child care.

All six states we visited perceived TCC's 12-month provision of child care to be too short. They all attempt to continue to subsidize TCC families with another funding source after the 12-month limit. Three states make post-TCC clients a priority for At-Risk Child Care funds, and three states use the Block Grant. One state uses state funds for these families. However, since these funding streams are limited, states do not always have funds to continue the subsidy. Officials in three of the six states have requested, or are considering requesting, a federal waiver in order to be able to continue providing TCC for 12 additional months.

When Texas ran out of funds to extend subsidies for former TCC families, a special waiting list for these post-TCC families was created so that they would be the first to receive additional funds when they became available. However, state officials expressed concern over what clients would do about child care in the interim. While one Texas official would like to see more TCC made available, she is concerned that this would divert the amount of state funding available to claim At-Risk Child Care funds. This could further limit subsidies for the working poor with no immediate ties to welfare.

Current System Provides Little Incentive to Serve the Low-Income Working Poor

Current rules for the child care programs described produce incentives for states to serve entitled clients first and to form waiting lists for other eligible families, that is, the nonwelfare working poor. Although child care program workers believe that the provision of child care is important to prevent low-income working families from going on welfare, these families are served, as funding permits, after states provide subsidies to entitled individuals. Clients who are guaranteed or entitled by law to receive child care benefits are placed in one category and other eligible individuals are prioritized and served as resources permit.

In most states child protective service cases[5] along with clients entitled to AFDC Child Care and TCC are in the category that will receive child care subsidies by right. Working poor, nonwelfare recipients are in the group that will receive subsidies as resources permit. For example, in Texas they are fourth in a priority list consisting of eight major client groups. In Massachusetts they are the third of three eligibility categories, and Illinois reports that it serves its nonentitled caseload in the following order: teen parents, protective services and special needs families, followed by low-income working families.

The combination of program mandates and limited resources requires states to make difficult choices that frequently result in denying services to needy eligible families. Decisions over who will receive a child care subsidy depend upon the availability of funds and the funding rules. Eligible clients are matched with funding streams that fit their eligibility status. When the funding runs out for a particular category, states terminate intake and either form waiting lists or simply turn clients away. Consequently, clients who are eligible for funds but are not entitled to them may not receive services, while individuals who are entitled to services will receive them regardless of funding source. Moreover, as states are required by FSA to increase participation in the JOBS program,[6] the competition for limited child care funds will only increase, with greater pressure to provide child care to welfare recipients.

Currently, some states are using federal Block Grant funds to meet AFDC Child Care entitlements. Although the Block Grant legislation does not prohibit assisting families on welfare, the primary goal of the Block Grant is to help working poor families afford child care. However, as states run out of money to claim federal funds, they turn to the Block Grant to meet their obligations to entitled individuals. Three of the six states we visited reported using some federal Block Grant funds to meet child care entitlements. In a recent survey of all states by the Children's Defense Fund,[7] 15 states reported using Block Grant funds to pay for child care for at least some AFDC families in employment, education, or training programs.

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[5]These are children in state custody as a result of abuse or neglect.

[6]The JOBS participation rate for mandatory participants was 11 percent in fiscal years 1992 and 1993, increased to 15 percent in fiscal year 1994, and increases to 20 percent in fiscal year 1995.

[7]Nancy Ebb, Child Care Tradeoff: States Make Painful Choices (Washington, D.C.: Jan. 1994).

ISSUES IN CONSIDERING PROGRAM CONSOLIDATION

Our work has shown that affordable child care is a decisive factor in encouraging low-income mothers to seek and keep jobs. When the Congress enacted the four child care assistance programs, it created individual programs to meet the needs of four discrete categories of low-income mothers and their children. What our research has shown is that the categories and their needs are not very discrete. One family, at different points on the road from welfare dependency to becoming a nonwelfare, working poor family, can become eligible for each of the four programs. But this can necessitate moving children from one child care provider to another as the family moves through the categorical programs. Similarly, two families whose incomes are the same can be treated differently by different child care programs, based on other categorical eligibility factors. And these categorical eligibility factors can cause gaps in child care services, which can result in loss of employment, inability to search for employment, and a diversion of subsidy funds away from the nonentitled--the working poor.

To more effectively use available federal funds for child care subsidies, while addressing service gaps and easing state and local administration of child care subsidies to low-income families, these four subsidy programs could be candidates for consolidation. Such an approach raises a number of issues that need to be considered--issues that reflect both benefits and cautions.

From a benefits perspective, consolidation could offer states the flexibility to tailor their child care assistance programs to their particular mix of low-income families. This would permit them to decide to serve well and consistently those families they accept into the system but not to serve a larger number of equally eligible families in a piecemeal fashion. States could decide which families to provide subsidies for, for how long, and during what transitional phases in their movement from welfare to work. States could eliminate the artificial categorization that currently besets the programs.

One choice they might make under this scenario could be that family income alone will be the criterion by which eligibility for child care subsidies is determined. Alternatively, where now federal legislation drives decisions about the priority groups for subsidies, consolidation could permit the states discretion regarding priority groups, based on their knowledge of their low-income populations' characteristics.

Consolidation with state flexibility would also simplify the meshing of a new, single federal child care assistance program with existing state child care assistance programs. This would facilitate state and local public administrators' goals of making the programs' rules and funding streams more seamless for clients

and child care program providers, and enhancing continuity of care for the children.

Cautions about consolidation, however, are warranted. For example, some groups will call for requiring a "maintenance of effort" provision in a consolidated child care subsidy program. Without such a requirement, some states might see the new, consolidated federal program as the sum total of dollars to be made available for child care, and could divert state dollars previously used for a child care state match to other purposes. However, a maintenance of effort provision should avoid requiring a continuing state commitment at a level that penalizes states that sustained high levels of state matching funds despite the recession of the early 1990s, relative to states that did not.

A similar concern surrounds the formula for allocating a single block of federal child care funds among the states. Basing the allocation on a recent year's expenditures by the states could perpetuate lower proportions of clients served in poorer states.

In consolidating two entitlement and two nonentitlement programs[8] into one consolidated program without any entitlement provisions, there will be an overall cap on the funding. Thus, unlike entitlement programs in which all who apply must theoretically be served, a consolidated, capped program could deny services to otherwise eligible families at some point during the year, after the cap is reached.

Another issue concerns including too much state flexibility regarding reporting and accountability for results. As an example, beyond requiring states to report the number of children served by a child care subsidy program, information may be needed on (1) the number of subsidized families leaving welfare, (2) the length of time they remain subsidized and off welfare, (3) and the number who return to welfare within some number of months after subsidies terminate.

Any consolidation of child care programs may need to be done in concert with developments in the consolidation of cash welfare programs. This raises questions, including whether participants "entitled" to JOBS funding who would otherwise be mandatory participants in a JOBS activity (education, training, and so forth) can be required to participate if the state has run out of its capped allocation of child care funding.

Finally, welfare reform legislation may require significant additions to the numbers of clients mandated to participate in

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[8]JOBS and TCC are uncapped entitlements to individuals. At-Risk Child Care is a capped "entitlement" to states. The Block Grant is a set annual allocation to states.

education and training, or to work. Under this scenario, and with a consolidated, capped allocation of child care funding, states could again feel compelled to divert most child care subsidy dollars from the working poor to AFDC/JOBS clients.

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Thank you Mr. Chairman. That concludes my statement today. I would be happy to answer any questions.

For more information on this testimony, please call Lynne Fender, Assistant Director, at (202) 512-7229. Other major contributors include Margaret Boeckmann, Senior Social Science Analyst, and Alicia Puente Cackley, Senior Economist.

RELATED GAO PRODUCTS

Welfare to Work: AFDC Training Program Spends Billions, but Not Well Focused on Employment (GAO/T-HEHS-95-51, Jan. 10, 1995).

Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work (GAO/HEHS-95-20, Dec. 30, 1994).

Welfare to Work: Current AFDC Program Not Sufficiently Focused on Employment (GAO/HEHS-95-28, Dec. 19, 1994).

Family Child Care: Innovative Programs Promote Quality (GAO/T-HEHS-95-43, Dec. 9, 1994).

Child Care: Promoting Quality in Family Child Care (GAO/HEHS-95-36, Dec. 7, 1994).

Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-95-4FS, Oct. 31, 1994).

Child Care: Current System Could Undermine Goals of Welfare Reform (GAO/T-HEHS-94-238, Sept. 20, 1994).

Families on Welfare: Sharp Rise in Never-Married Women Reflects Societal Trend (GAO/HEHS-94-92, May 31, 1994).

Families on Welfare: Teenage Mothers Least Likely to Become Self-Sufficient (GAO/HEHS-94-115, May 31, 1994).

Families on Welfare: Focus on Teenage Mothers Could Enhance Welfare Reform Efforts (GAO/HEHS-94-112, May 31, 1994).

Child Care: Working Poor and Welfare Recipients Face Service Gaps (GAO/HEHS-94-87, May 13, 1994).

Infants and Toddlers: Dramatic Increases in Numbers Living in Poverty (GAO/HEHS-94-74, April 7, 1994).

Child Care Quality: States' Difficulties Enforcing Standards Confront Welfare Reform Plans (GAO/T-HEHS-94-99, Feb. 11, 1994).

Self-Sufficiency: Opportunities and Disincentives on the Road to Economic Independence (GAO/HRD-93-23, Aug. 6, 1993).

Child Care: States Face Difficulties Enforcing Standards and Promoting Quality (GAO/HRD-93-13, Nov. 20, 1992).

Welfare to Work: Implementation and Evaluation of Transitional Benefits Need HHS Action (GAO/HRD-92-118, Sept. 29, 1992).

Mother-Only Families: Low Earnings Will Keep Many Children in Poverty (GAO/HRD-91-62, Apr. 2, 1991).

Welfare: Income and Relative Poverty Status of AFDC Families (GAO/HRD-88-9, Nov. 4, 1987).

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